

DR. HARDING: Thank you. I'm sorry I was a bit late, but, ladies and gentlemen, I'm very honored and delighted to have the opportunity to testify before you today.

I want to comment very briefly on the three issues in which I understand you are particularly interested. First, why has China sought membership in the WTO? And why was it willing to make significant concessions to gain membership? Secondly, what are the implications of China's membership in the WTO for American interests? And then, thirdly, should Congress grant permanent NTR status to China as provided by our bilateral agreement with Beijing on China's membership in the WTO?

For the sake of time, I'll simply summarize my answer to the first question. The fuller answer is given in my written statement.

China joined the WTO because of a calculation of its own interests. Only in part did it meet American terms in order to bolster relations with the United States. Rather, China is joining WTO for precisely the same reason that it opened its economy to the rest of the world in the late 1970s and early 1980s.

It has concluded that only by doing so can it achieve its goals of national wealth and power.

The limited opening of the 1980s and 1990s achieved substantial results but was not sufficient. And now even deeper integration in the international economy is required, even if that proves profoundly challenging to inefficient economic enterprises, even if it means increased levels of foreign involvement in the Chinese economy and even if it means increased foreign influence over Chinese society.

What are the implications of all of this for the United States? We need a realistic assessment of the way in which China's membership in the WTO will impact American interests, and I think that such a realistic assessment is going to be a mixed one. It is a complicated picture.

Although to some degree motivated by a short-run desire to improve relations with the United States, as I've just said, the principal purpose of China's entry is to enhance China's economic efficiency and, thereby, to increase China's national wealth and power.

Some people, both in the U.S. and in China, believe that this will inevitably produce greater

strategic competition between the two countries over time.

On the other hand, it is equally plausible that the greater economic interdependence between China and the United States will give each country a stake in maintaining a stable relationship. Anyone who can answer that question in advance deserves the equivalent of the Nobel Prize in political science.

The terms of China's membership into the WTO are not perfect. Obviously, we would have liked deeper tariff reductions in some areas, greater opportunities for foreign investors and others, and faster timetables for implementation in still others.

Nonetheless, the agreement goes far beyond what many had expected, even as Zhu Rhongji arrived in the United States about one year ago, in the beginning of 1999. It may, therefore, not be an ideal agreement, but I think it is a good one.

For the first time, China's foreign economic policies will be subjected to multilateral regulation. And further rounds of WTO negotiations will offer the opportunity for further progress on issues of concern to the United States. This is not

the end of our negotiating our trade relationship with China.

Third, not all American interests will benefit. Since investors will now be subject to national treatment in China, they will lose some of the beneficial measures that, as foreigners, they previously enjoyed.

American textile manufacturers and clothing manufacturers must expect an increase in textile imports from China as the WTO Agreement on Textiles and Clothing is phased out. Still, I think it's reasonable to say that the adjustment costs for China from this agreement will be far greater than the comparable costs for the United States, and the gains for the United States are far greater than the gains for China.

Nor will implementation of the agreement be easy. Those parts that can be implemented through central fiat, such as tariff reductions, should not prove that problematic. But China's pledges to open its market to foreign distribution channels and to increase opportunities for foreign investors will encounter a variety of practical and political difficulties.

Still, there is the other side to the picture. And that is that Beijing is joining the WTO out of its own national interests, rather than simply under pressure from the United States.

That suggests that the central leadership in Beijing will want China to fulfill its obligations as a way of promoting economic reform. Moreover, the U.S. will be able to avail itself of a variety of remedial mechanisms under the WTO if China does not fulfill its obligations.

Our trade imbalance with China is not going to be eliminated. I'll let others who can do the forecasting make the forecast, but I would assume that the gap is now so wide that Chinese imports will have to grow far faster than exports simply to keep the gap from widening further in absolute terms.

Nonetheless, American exports to China should experience substantial growth, both as barriers fall and as the growth of the Chinese economy remains strong.

We should not expect China's membership in the WTO to produce rapid improvements in civil or political rights in China or an acceleration of

political reform. Let's not oversell that part of the agreement.

Even so, further integration with the international economy will introduce new ideas into China, and the market-opening measures should promote the growth of both foreign and private involvement in the Chinese economy. That is precisely why many in China have opposed China's membership in WTO.

If I were a betting man, I would play the odds. I would wager that a China that has joined the WTO on the terms that have been negotiated is far more likely to experience eventual political reform than one that was excluded. That is a relative statement of probabilities. It's not an absolute forecast.

With China's entry into the WTO, trade issues between China and the U.S. will assume a new multilateral dimension. As a major trading nation, China will now expect, understandably and appropriately, to help shape the agenda and the outcome of any new round of WTO negotiations.

Beijing's views on the likely agenda of those negotiations, especially on environmental and labor standards, will almost certainly resemble those

of other developing countries more than those of the United States.

On the other hand, as a major beneficiary of integration with a global economy, China will be far less critical of the existing economic order than some of the poorest countries might be or than it itself would have been 25 years ago.

Finally, China's membership in WTO will open the way to Taiwan's membership in the same organization as a separate customs territory. This certainly would not be a panacea for the problem of cross-straits relations, but it will carry several benefits: enhancing Taiwan's role in the international community, providing an additional forum for contacts between Taiwanese and mainland Chinese officials, and possibly -- Gerrit is right in saying we don't yet know -- placing economic relations across the Taiwan Strait within the framework of the WTO.

I've tried to give a fair and sober assessment of China's motives in joining the WTO and its implications of its membership for the United States. On balance, I support China's membership in the WTO on the terms that have been negotiated on the

grounds that the benefits and the opportunities for the U.S. far outweigh the cost of the risks.

Therefore, I also support granting China permanent NTR status. Doing so will enable the U.S. economy to realize the benefits of the agreement that the U.S. government negotiated.

Conversely, denying China permanent NTR will not block China's membership in the WTO. Instead, it will simply prevent the United States from achieving greater access to the Chinese market while giving that same access to all of the world's other major economies.

Nor do I find some of the other arguments against permanent NTR to be persuasive. I don't regard this measure as an endorsement of the Chinese foreign and domestic policies with which we disagree. Instead, it is a way of bringing one major aspect of China's international conduct, its foreign economic policies, under international regulation.

If we seek to bring China into multilateral regimes on human rights and arms control, we should also seek to bring it into international regimes governing trade and investment. And, in particular, if this agreement is in our interest, we should not reject



it because of Beijing's recent statements of policy towards Taiwan.

Making China's NTR status permanent does not involve in my judgment any significant reduction in actual American leverage over China. The fact that we have renewed NTR or MFN every year since it was first granted in 1980, despite the considerable controversy after the Tiananmen crisis of 1989, suggests that the threat to revoke NTR has lost all credibility and, therefore, all leverage in China.

Nor do I believe that granting permanent NTR would deny Congress a voice in the making of policy towards China. Although the annual deliberations over MFN and NTR have provided occasions for congressional oversight over our China policy, I think Congress will be able to devise other mechanisms, subjecting any Administration's policy towards China to regular and appropriate scrutiny.

One last point. The vote on permanent NTR for China should not be regarded as a referendum on globalization, although I think some are attempting to make it one.

America's economic relationship with China does, indeed, exemplify many of the challenges and

opportunities of globalization for both China and the United States. But denying permanent NTR to China will not halt the process of globalization or make the challenges produced by globalization any easier for the United States to manage.

Thank you, Mr. Chairman.

VICE CHAIRMAN PAPADIMITRIOU: Thank you very, very much.

Mr. Lardy next.